

when changing local service providers.¹³ (AT&T Comments at 12).

- A "national affordable rate" should be used in conjunction with the TSLRIC of providing the core service (as developed by the Hatfield Model) to determine the actual subsidy provided to carriers operating in high cost areas. To the extent that the TSLRIC of serving a particular area would require a local service rate that exceeds the "affordable rate," the ILEC or competitive local exchange carrier (CLEC) serving the customer should be able to receive national NUSF support for the difference between the TSLRIC and the affordable rate. (AT&T Comments at 14; Reply Comments at 19).¹⁴

¹³ Although AT&T believes interexchange services should not be included in the definition of core services entitled to universal service support, to the extent that telecommunications carriers, as a result of rate averaging and integration rules, provide interexchange services that are below cost either to low-income consumers or for calls to or from high cost areas, they should be permitted to recover from the NUSF the difference between the price charged to the end user and the TSLRIC. (AT&T Comments at n.15).

¹⁴ The Joint Board should define what constitutes a "nationwide affordable rate." In making that determination, the "nationwide affordable rate" should be the weighted average current local rate for consumers in all areas served by non-rural LECs (*i.e.*, those LECs not entitled to exemption from interconnection under Section 251(f)(1) of the Act) including the \$3.50 SLC. (There may be no need for an additional SLC increase due to subsidies removed from access because in many areas, under a TSLRIC standard, local service rates are already fully compensatory.)

- Low-income consumers would continue to qualify for need-based support from the Lifeline Assistance and Link-Up programs, which should be funded by the NUSF. (AT&T Comments at 18).
- Small rural carriers would benchmark their traffic-sensitive (TS) rates to the adjacent non-rural LEC's level (which is based on TSLRIC). To the extent that these new benchmark TS rates coupled with local service revenues (including the SLC and high cost fund revenues) are insufficient to cover all of a rural LEC's TS access and basic local service costs, the remainder should be subsidized directly by the NUSF. (AT&T Comments at 18).
- Reimbursement in the amount of the special discount for a telecommunications service provided by any carrier to a qualified institutional user (school, library, non-profit health care provider) should be funded by the NUSF. (AT&T Comments at 21).
- The NUSF should be administered by a neutral organization not affiliated with any telecommunications carrier, such as a major accounting firm, electronic data processor or financial institution. (AT&T Comments at 22).
- All subsidies need to be stripped from access charges in order to comply with the Section 254(b)(4)'s mandate that "all providers of telecommunications services . . . make an equitable and nondiscriminatory contribution to the

preservation and advancement of universal service."

(AT&T Comments at 4).

AT&T's proposed NUSF plan strongly supports the Act's objective of ensuring universal service for all residential consumers at reasonable rates, through a mechanism that complies with the Act's command that all subsidies be "explicit," "equitable" and "nondiscriminatory." This NUSF plan will thus facilitate local market entry in all geographic areas of the country, consistent with the Act's procompetitive objectives.

General Questions

26. If the existing high-cost support mechanism remains in place (on either a permanent or temporary basis), what modifications, if any, are required to comply with the Telecommunications Act of 1996?

The existing high-cost support mechanisms should not remain in place, because they are inconsistent with Section 254 of the Act's command that all subsidies be explicit, equitable and nondiscriminatory. Accordingly, to comply with the Act, on a going-forward basis, all universal service subsidies must be divorced from access charges and all telecommunications service providers must make an equitable and nondiscriminatory contribution to universal service support through a surcharge on carrier revenues (interstate and intrastate). The subsidy must be explicit and portable with the end user consumer, and the level of the NUSF subsidy should be developed by comparing the TSLRIC

of providing the basic core services in an area with the nationwide "affordable rate." (AT&T Comments at ii-iii).

27. If the high-cost support system is kept in place for rural areas, how should it be modified to target the fund better and consistently with the Telecommunications Act of 1996?

As described above, the AT&T plan for a NUSF would provide appropriate universal service support to any eligible carrier that provides service in high cost areas. At least at the outset, small rural carriers can appropriately be exempted from the portability requirement because the administrative costs of portability could outweigh the benefits. These carriers would benchmark their traffic-sensitive access rates to the level of the adjacent non-rural LEC (which is based on TSLRIC); they would be eligible to receive "high cost support" from a restructured high cost fund, as described in Attachment A. To the extent that these new benchmark TS rates coupled with local service revenues (including the SLC and high cost fund revenues) are insufficient to cover all of a rural LEC's TS access and basic local service costs, the remainder should be subsidized directly by the NUSF. Once a state commission determines that it is in the public interest for a rural carrier to interconnect with new entrants in its territory per Section 251(f)(1)(B), then the subsidy should also become portable and follow the end user consumer to the carrier of choice. (AT&T Comments at 9).

28. What are the potential advantages and disadvantages of basing the payments to competitive carriers on the book costs of the incumbent local exchange carrier operating in the same service area?

It is critically important that the Joint Board and the Commission adopt TSLRIC as the economic standard in developing its benchmark for determining whether universal service support is necessary for local service rates, and if so, for establishing the subsidy level. AT&T's plan for a NUSF calls for a local exchange carrier to be permitted to collect universal service support only when its TSLRIC (as determined by the appropriate cost estimate utilizing a tool such as the Hatfield Model) is greater than the nationwide affordable rate.

As the Commission has observed, "[e]conomists generally agree that prices based on [long-run incremental cost] give appropriate signals to producers and consumers and ensure efficient entry and utilization of the telecommunications infrastructure. They further agree that competitive markets, over the long run, tend to force prices toward [long-run incremental cost]."¹⁵ This principle applies with equal force to subsidies: forcing subscribers to subsidize a LEC's embedded costs in any fashion would

¹⁵ Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket 96-98, FCC 96-182, released April 19, 1996, para. 124 (Section 251 NPRM).

distort the competitive market and, indeed, allow the LEC to thwart entry by other, more efficient potential competitors.

Only disadvantages exist in basing subsidy payments on embedded costs. The Commission should flatly reject such a suggestion, and instead require that all universal service support payments be made only on the basis of a TSLRIC-based cost estimate. It has long been recognized that permitting a LEC to obtain revenues -- whether in the rates it charges or the subsidies it receives -- on the basis of historical costs gives it a strong incentive to overinvest in its capital asset rate base and to operate in an inefficient manner. Moreover, given a LEC's incentive to inflate costs, reliance upon embedded costs would require state public utility commissions to undertake frequent, unwieldy and expensive inquiries into the value and prudence of any claimed costs. The use of an embedded cost subsidy system would perpetuate inflated uneconomic subsidies -- one of the very barriers to competition that the Act requires be corrected.

29. Should price cap companies be eligible for high-cost support, and if not, how would the exclusion of price cap carriers be consistent with the provisions of section 214(e) of the Communications Act? In the alternative, should high-cost support be structured differently for price cap carriers than for other carriers?

All carriers providing the basic core service to high cost areas are entitled to universal service support. Therefore, whether a company is price cap or not becomes

irrelevant to its eligibility for high cost support under AT&T's plan for a NUSF.

30. If price cap companies are not eligible for support or receive high-cost support on a different basis than other carriers, what should be the definition of a "price cap" company? Would companies participating in a state, but not a federal, price cap plan be deemed price cap companies? Should there be a distinction between carriers operating under price caps and carriers that have agreed, for a specified period of time, to limit increases in some or all rates as part of a "social contract" regulatory approach?

See Response to Question 29.

31. If a bifurcated plan that would allow the use of book costs (instead of proxy costs) were used for rural companies, how should rural companies be defined?

Rural companies should be defined as those LECs that are entitled to an exemption from interconnection under Section 251(f)(1) of the Act.

32. If such a bifurcated approach is used, should those carriers initially allowed to use book costs eventually transition to a proxy system or a system of competitive bidding? If these companies are transitioned from book costs, how long should the transition be? What would be the basis for high-cost assistance to competitors under a bifurcated approach, both initially and during a transition period?

When state commissions determine that it is in the public interest for rural carriers to interconnect with new entrants, then the NUSF support should be based on the TSLRIC of the basic core service as compared to the nationwide "affordable" rate. In this instance, the TSLRIC for providing basic core service could be either that for the adjacent non-rural LEC territory, or the TSLRIC specifically developed for the rural carrier territory.

33. If a proxy model is used, should carriers serving areas with subscription below a certain level continue to receive assistance at levels currently produced under the HCF and DEM weighting subsidies?

No. All carriers serving high cost areas would receive universal service subsidy in accordance with the provisions of the NUSF as outlined above.

Proxy Models

Preamble: It is critically important that the Commission and the Joint Board adopt TSLRIC as the economic standard for the benchmark for determining whether universal service support is necessary for local service rates, and if so, for establishing the subsidy level. Only by using the TSLRIC standard can the Commission ensure that all implicit subsidies have been removed from the rates for telecommunications services as Section 254 requires, and that these impediments to the development of competition have been eliminated.

TSLRIC should be the cost standard for developing the costs of providing basic local service for which subsidies may apply because a TSLRIC methodology embraces the following basic principles:

- TSLRIC measures the forward-looking costs of providing the basic local service.
- TSLRIC is based on the costs an efficient, cost-minimizing competitor would incur -- i.e., the costs of assets that are optimally configured and sized with the

efficient deployment of the latest technology and efficient operating practices. Proper TSLRIC estimates do not simply accept the past (possibly inefficient) architecture, sizing, or operating decisions of the ILECs as the foundation for calculating TSLRIC.

- TSLRIC includes the additional costs of providing the basic local service being examined (including a retail cost overlay), holding constant the ILEC's output of other goods and services.
- TSLRIC is based on the entire demand of all uses and users of basic local services.
- TSLRIC estimates reflect significant geographic cost differences.

Thus, only models that provide a direct measure of TSLRIC should be considered for purposes of measuring universal service subsidies.

The firm of Hatfield Associates, at the request of AT&T and MCI, has developed a detailed TSLRIC model that, among other things, establishes specific TSLRIC costs of providing basic local service. Building and improving upon earlier efforts to develop a costing model for local exchange facilities championed by a number of ILECs, the Hatfield Model includes the full array of different geologic, geographic, demographic, technological, and other pertinent cost-causative conditions in the development of detailed and realistic TSLRIC estimates of the cost of providing basic local service.

The Hatfield Model uses the best publicly available and auditable data about ILEC costs, and applies conservative TSLRIC calculations that assign at least as much to TSLRIC as pure economic theory would require. The model produces, for each state, actual TSLRIC figures for each of six population density zones, reflecting cost differences across low and high density regions within the state.

34. What, if any, program (in addition to those aimed at high-cost areas) are needed to ensure that insular areas have affordable telecommunications service?

If universal service support is needed for "core local service" in insular areas, the NUSF will provide the subsidy, just as it does for other high cost areas. In addition, AT&T recognizes that some form of rate averaging and/or integration may be appropriate to help ensure affordable long distance rates in insular areas, for example, by the use of a single nationwide, tariffed rate schedule for consumer basic long distances services. (See AT&T Comments, CC Docket 96-61, filed April 19, 1996, at 33-34). To the extent that telecommunications carriers, as a result of rate averaging and integration rules, provide interexchange services that are below cost for calls to or from insular areas, they should be permitted to recover from the NUSF the difference between the price charged to the end user and the TSLRIC. (See AT&T Comments at n.15).

35. U S West has stated that an industry task force "could develop a final model process utilizing consensus model assumptions and input data," U S West comments at 10. Comment on U S West's statement, discussing potential legal issues and practical considerations in light of the requirement under the 1996 Act that the Commission take final action in this proceeding within six months of the Joint Board's recommended decision.

While industry consensus on the underlying logic of the model is possible, consensus regarding the appropriate input data has not been forthcoming, and it is not realistic to assume that such a consensus can be achieved -- particularly in light of the short timeframes mandated by the Act. Therefore, it will be necessary for the Commission to establish the appropriate modeling technique.

36. What proposals, if any, have been considered by interested parties to harmonize the differences among the various proxy cost proposals? What results have been achieved?

See Response to Question 35.

37. How does a proxy model determine costs for providing only the defined universal service core services?

The Hatfield Model builds up from the unbundled TSLRIC network elements used for core services, with a basic retail cost overlay (based on TSLRIC).

38. How should a proxy model evolve to account for changes in the definition of core services or in the technical capabilities of various types of facilities?

The Hatfield Model has the capability to add to the definition of core services and to incorporate modifications to the technical capabilities of various types of facilities.

39. Should a proxy model account for the cost of access to advanced telecommunications and information services, as referenced in section 254(b) of the Act? If so, how should this occur?

A proxy model should be limited to measuring only the costs for core services subject to explicit universal service subsidies. AT&T recommends the core service defined in the preamble to the "Definition Issues" section as the services requiring cost measurement. These core services can be used to access advanced and information services.

40. If a proxy model is used, what, if any, measures are necessary to assure that urban rates and rates in rural, insular, and high-cost areas are reasonably comparable, as required in Section 254(b)(3) of the 1996 Act?

The Hatfield Model is designed to estimate the cost of providing basic local service using the most efficient deployment of the latest technology for each Census Block Group (CBG) served by a non-rural LEC, based on the actual demographic, geographic and topographic characteristics of the CBG. The CBGs are aggregated to six population density zones, and the cost of providing basic

local service for each primary line is then determined for each zone. The TSLRIC per line for each density zone can then be compared with the affordable rate. Thus, for each population density zone for which the affordable rate is less than the TSLRIC for the primary line, the model can size the amount of the subsidy, thereby creating a deaveraged subsidy by density zone. The Hatfield model uses a database which assigns each CBG in the United States to a specific LEC wire center. The database can then be used to assign a per-line density zone subsidy to individual subscribers within the density zone. With the subsidy subsequently disaggregated to individual subscribers, service providers will not have to change rates for any subscriber, regardless of where the subscriber lives. Thus, today's reasonably comparable rates between urban and rural areas could be sustained.

41. How should support be calculated for those areas (e.g., insular areas and Alaska) that are not included under the proxy model?

Proxy models identify the TSLRIC of providing local service for all non-rural LEC territories, including insular areas. Accordingly, for insular areas served by non-rural LECs, TSLRIC should be the cost standard for identifying whether a subsidy is required. To the extent that subsidies are needed to support "core service" in these insular areas, the NUSF will provide the same support as for other high cost areas. All other insular areas will be

covered under the rural LEC plan, which is described in the response to Question 27.

42. Will support calculated using a proxy model provide sufficient incentive to support infrastructure development and maintain quality service?

The Hatfield Model includes sufficient return/profit to provide efficient LECs with incentives to continue to invest in appropriate infrastructure.

43. Should there be recourse for companies whose book costs are substantially above the costs projected for them under a proxy model? If so, under what conditions (for example, at what cost levels above the proxy amount) should carriers be granted a waiver allowing alternative treatment? What standards should be used when considering such requests?

The NUSF plan recommended by AT&T provides an economically sound, properly targeted, and competitively neutral support program for which all carriers providing the core set of local services could become eligible for support on behalf of their customers. It provides appropriate universal service support to any eligible carrier that provides service in high cost areas. Therefore, there is no need to recognize book costs in the determination of universal service support. In fact, such excess book costs are most likely indicative of inefficiency that should not be sustained.

44. How can a proxy model be modified to accommodate technological neutrality?

Proxy models need to be flexible to allow for updating to accommodate the least cost, forward-looking proven technology. Periodic reviews of the models could be made to ensure that they are consistent relative to changing technology and the associated costs of that technology.

45. Is it appropriate for a proxy model adopted by the Commission in this proceeding to be subject to proprietary restrictions, or must such a model be a public document?

The model architecture and logic should be a public document, as well as the maximum amount of input data. To the extent that proprietary information allows for inputs that provide a more precise estimate of TSLRIC costs, the Commission should allow for the use of such proprietary information in the development of cost estimates. However, all proprietary information should be made available to interested parties, subject to non-disclosure agreements, to allow for review and audit of the data.

46. Should a proxy model be adopted if it is based on proprietary data that may not be available for public review?

See Response to Question 45.

47. If it is determined that proprietary data should not be employed in the proxy model, are there adequate data publicly available on current book costs to develop a proxy model? If so, identify the source(s) of such data.

See Response to Question 45. The Hatfield Model develops a reasonable approximation of the TSLRIC costs required to compute a competitively neutral subsidy by using publicly available data.

48. Should the materiality and potential importance of proprietary information be considered in evaluating the various models?

See Response to Question 45.

Competitive Bidding

Preamble: To stimulate a competitive environment, all exclusive franchises in territories currently served by non-rural LECs must be eliminated. All carriers having the technology, management and financial resources to offer the core set of basic residential local services must be allowed to compete for the subscriber.

Although there has been some discussion within the industry about the possibility of using competitive bidding as a way of fulfilling Section 254's requirement of competitively neutral universal service provision, AT&T believes that, in general, competitive bidding is fundamentally at odds with the Act's procompetitive goals. An inherent aspect of a bidding process is that the winner of the auction would be given exclusive rights to serve an

area; but this result would obviously deny consumers the choice of service providers that the Act envisions.

AT&T's universal service reform proposal addresses the issue of universal service support for high cost areas in an efficient, competitively neutral manner and allows for development of local competition. Adoption of AT&T's proposal is far preferable to a competitive bidding process that would ultimately deny consumers choice among local service providers.

Once the New Universal Service Fund (NUSF) proposed by AT&T is implemented, every carrier that provides basic residential local exchange service would be eligible for a subsidy if the basic local service rates in an area are not compensatory. Upon winning the subscriber in the competitive marketplace, the carrier receives, on behalf of the customer, whatever subsidy is ascribed to that customer.

Notwithstanding its above-noted concerns, AT&T would not be opposed to use of a competitive bidding process in those areas not currently served by any LEC (either non-rural or rural), and in which a state commission seeks to initiate telephone service in the unserved area. As the number of potential customers in this situation is presumably very small, only a single carrier is likely to be able to develop the necessary economies of scope to provide service economically, and use of a competitive bidding process to identify one carrier to serve this small customer base is about as efficient as any other mechanism. The

amount of the subsidy from the NUSF would then be the difference between the winning bid, in this case the carrier submitting the lowest bid per primary residential line, and the nationwide affordable rate or the actual basic local service rate, whichever is higher. If the actual rate is set below the nationwide affordable rate, the state commission could provide additional support by a state-specific subsidy funded by a surcharge on intrastate service revenues.

49. How would high-cost payments be determined under a system of competitive bidding in areas with no competition?

As noted above, the amount of the subsidy from the NUSF would be the difference between the winning bid and the nationwide affordable rate or the actual basic local service rate, whichever is higher.

50. How should a bidding system be structured in order to provide incentives for carriers to compete to submit the low bid for universal service support?

AT&T does not believe that a bidding system can be structured that would be as efficient as a mechanism, such as the one proposed by AT&T, which limits the NUSF subsidy payment to the difference between TSLRIC and the nationwide affordable basic local service rate or the actual local service rate, whichever is higher. Carriers in a bidding system would have an incentive to bid at a level somewhat above the TSLRIC. Accordingly, for all territories other

than those which are not currently served by any LEC, competitive bidding should not be employed.

51. What, if any, safeguards should be adopted to ensure that large companies do not bid excessively low to drive out competition?

See Response to Question 50.

52. What safeguards should be adopted to ensure adequate quality of service under a system of competitive bidding?

In those limited circumstances where competitive bidding may be allowed, state commissions should verify the credentials and capabilities of the bidding carriers to ensure subscribers are adequately served and are not abandoned.

53. How is collusion avoided when using a competitive bid?

See Response to Question 50.

54. Should the structure of the auction differ if there are few bidders? If so, how?

The fact that there might be few or potentially only one bidder in a serving area is a further indication that a bidding system would not be efficient.

55. How should the Commission determine the size of the areas within which eligible carriers bid for universal service support? What is the optimal basis for determining the size of those areas, in order to avoid unfair advantage for either the incumbent local exchange carriers or competitive carriers?

As indicated above, a competitive bidding process is not necessary for implementing universal service subsidies and should not be used, except for those areas which are not currently served by any LEC and in which a

state commission wishes to initiate telephone service. The state commission should identify the specific geographic area in which it intends to initiate service and solicit competitive bids.

Benchmark Cost Model (BCM)

Preamble: Since none of the original sponsors of BCM currently supports BCM, and some of the sponsors have recently introduced BCM 2 to replace BCM, questions regarding the BCM are moot. AT&T's Comments on BCM 2 will be provided on August 9, 1996, in connection with the Universal Service (96-45) Public Notice seeking comments regarding proxy models.

56. How do the book costs of incumbent local exchange carriers compare with the calculated proxy costs of the Benchmark Cost Model (BCM) for the same areas?

See Preamble to Benchmark Cost Model (BCM).

57. Should the BCM be modified to include non-wireline services? If wireless technology proves less costly than wireline facilities, should projected costs be capped at the level predicted for use of wireless technology?

See Preamble to Benchmark Cost Model (BCM).

58. What are the advantages and disadvantages of using a wire center instead of a Census Block Group as the appropriate geographic area in projecting costs?

See Preamble to Benchmark Cost Model (BCM).

59. The Maine PUC and several other State commissions proposed inclusion in the BCM of the costs of connecting exchanges to the public switched network through the use of microwave, trunk, or satellite technologies. Those

commenters also proposed the use of additional extra high-cost variable for remote areas not accessible by road. What is the feasibility and the advisability of incorporating these changes into the BCM?

See Preamble to Benchmark Cost Model (BCM).

60. The National Cable Television Association proposed a number of modifications to the BCM related to switching cost, fill factors, digital loop carrier subscriber equipment, penetration assumptions, deployment of fiber versus copper technology assumptions, and service area interface costs. Which, if any, of these changes would be feasible and advisable to incorporate into the BCM?

See Preamble to Benchmark Cost Model (BCM).

61. Should the support calculated using the Benchmark Cost Model also reflect subscriber income levels, as suggested by the Puerto Rico Telephone Company in its comments?

See Preamble to Benchmark Cost Model (BCM).

62. The BCM appears to compare unseparated costs, calculated using a proxy methodology, with a nationwide local benchmark rate. Does use of the BCM suggest that the costs calculated by the model would be recovered only through services included in the benchmark rate? Does the BCM require changes to existing separations and access charge rules? Is the model designed to change as those rules are changed? Does the comparison of model costs with a local rate affordability benchmark create an opportunity for over-recovery from universal service support mechanisms?

See Preamble to Benchmark Cost Model (BCM).

63. Is it feasible and/or advisable to integrate the grid cell structure used in the Cost Proxy Model (CPM) proposed by Pacific Telesis into the BCM for identifying terrain and population in areas where population density is low?

See Preamble to Benchmark Cost Model (BCM).

Cost Proxy Model Proposed by Pacific Telesis

Preamble: Because of the proprietary nature of the bulk of the CPM, questions related to the CPM model can best be answered by the sponsors of that model. AT&T's evaluation of CPM will be included in the AT&T Comments which will be filed on August 9, 1996, in connection with the Universal Service (96-45) Public Notice seeking comments regarding proxy models.

64. Can the grid cell structure used in the CPM reasonably identify population distribution in sparsely-populated areas?

See Preamble to Cost Proxy Model Proposed by Pacific Telesis.

65. Can the CPM be modified to identify terrain and soil type by grid cell?

See Preamble to Cost Proxy Model Proposed by Pacific Telesis.

66. Can the CPM be used on a nationwide basis to estimate the cost of providing basic residential service?

See Preamble to Cost Proxy Model Proposed by Pacific Telesis.

67. Using the CPM, what costs would be calculated by Census Block Group and by wire center for serving a rural, high-cost state (e.g., Arkansas)?

See Preamble to Cost Proxy Model Proposed by Pacific Telesis.

68. Is the CPM a self-contained model, or does it rely on other models, and if so, to what extent?

See Preamble to Cost Proxy Model Proposed by Pacific Telesis.

SLC/CCLC

PREAMBLE: In theory, the Subscriber Line Charge (SLC) represents the flat-rated recovery, from the subscriber, of the portion of the subscriber's local loop that has been assigned to the interstate jurisdiction under regulation by the FCC, based on fully distributed cost (FDC) allocation of the ILEC's historical or embedded costs. The local loop is also referred to as the common line, as it is used for both local service and toll service, intrastate and interstate. To the extent that the SLC does not fully recover from subscribers the interstate assignment of embedded local loop costs, the remaining portion is recovered from interexchange carriers via the usage-sensitive Carrier Common Line Charge (CCLC).

Under a TSLRIC standard the CCLC is bloated and provides recovery to the LEC (and its shareholders) far in excess of any support that is needed for universal service. However, under FDC the CCLC has been considered a subsidy to support universal service as it is a charge to one service and market segment, *i.e.*, access charges to IXCs, to help defray the costs of *another* service and market segment,

namely, the subscriber's basic local service. In other words, under the FDC standard, because the subscriber's local service rate, including the SLC, would be higher in the absence of the CCLC, then the CCLC is a *subsidy*, and the CCLC portion of access charges *subsidizes* basic local service.

69. If a portion of the CCL charge represents a subsidy to support universal service, what is the total amount of the subsidy? Please provide supporting evidence to substantiate such estimates. Supporting evidence should indicate the cost methodology used to estimate the magnitude of the subsidy (e.g., long-run incremental, short-run incremental, fully-distributed).

All of the CCLC represents a contribution available to support universal service, whether or not the CCLC is *necessary* for such support. As AT&T demonstrated in its April 12, 1996 Comments in CC Docket 96-45, the only appropriate, economically efficient cost standard for identifying universal service subsidies is TSLRIC. Under this costing standard, the amount of subsidies required to compensate subscribers whose current rates (Local service rate plus SLC plus Touchtone) are below TSLRIC is far less than what is currently being collected from the CCLC.

For those subscribers that require a subsidy, the Act requires that such subsidies be treated in a competitively neutral manner. Specifically, Section 254(e) requires that carriers receiving universal service support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the

support is intended. It further requires that any such support should be explicit and sufficient to achieve the purposes of this section. In addition, Section 254(b)(4) requires that "all providers of telecommunications services make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service."

The CCLC fails to meet these criteria on two fronts. Because there is no accounting for how CCLC revenues are used, there is no assurance that the revenues are being used for their intended purpose. (Indeed, the Hatfield TSLRIC studies demonstrate that CCLC revenues are *not* used for universal service support.) Moreover, contrary to the requirements of the Act, only IXCs, rather than all carriers, pay the CCLC. Thus, even if the Commission were to decide that revenues currently generated by the CCLC were necessary to maintain universal service, the Act requires that the CCLC be eliminated and those revenues be obtained from a competitively neutral mechanism.

70. If a portion of the CCL charge represents a contribution to the recovery of loop costs, please identify and discuss alternatives to the CCL charge for recovery of those costs from all interstate telecommunications service providers (e.g., bulk billing, flat rate/per-line charge).

As the loop cost is non-traffic sensitive in nature, economic efficiency requires that it be recovered on a non-traffic sensitive basis, preferably through a monthly flat-rate, per-line charge. Economic efficiency also dictates that the cost-causer, *i.e.*, the subscriber, pay the